Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

SECRET

PAGE 01 JIDDA 06603 111933Z

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W
---------- 065873
O P 111720Z NOV 74
FM AMEMBASSY JIDDA
TO SECSTATE WASHDC IMMEDIATE 9215
INFO AMEMBASSY ABU DHABI PRIORITY
USINT ALGIERS PRIORITY
AMEMBASSY BONN PRIORITY
AMEMBASSY CARACAS PRIORITY
AMCONSUL DHAHRAN
AMEMBASSY JAKARTA PRIORITY
AMEMBASSY KUWAIT PRIORITY
AMEMBASSY LONDON PRIORITY
AMEMBASSY MANAMA PRIORITY
AMEMBASSY PARIS PRIORITY
AMEMBASSY LAGOS PRIORITY
AMEMBASSY TOKYO PRIORITY
AMEMBASSY ROME PRIORITY
AMEMBASSY TEHRAN PRIORITY
AMEMBASSY TRIPOLI PRIORITY

S E C R E T JIDDA 6603

EXDIS

E.O. 11652: GDS
TAGS: ENRG, US, XF, TC
SUBJECT: ABU DHABI PRICE INCREASES - CHAPTER II

REF JIDDA 6602

SUMMARY: PRINCES SULTAN AND FAHD WERE SURPRISED AND EMBARASSED TO LEARN THAT SAUDI ARABIA HAD AGREED TO PRICE INCREASES AT ABU DHABI. THEY BOTH THOUGHT THAT THE ONLY ACTION TO BE TAKEN NOW WOULD BE TO SELL SUBSTANTIAL QUANTITIES OF SAUDI OIL AT SOMETHING SUBSTANTIALLY BELOW 93 PERCENT OF POSTED PRICES. YAMANI FAVORS SUCH ACTION AND CONCEIVABLY COULD HAVE PUSHED HIS GOVERNMENT INTO A POSITION
SECRET

SECRET

PAGE 02 JIDDA 06603 111933Z

WHERE THE ONLY HONORABLE ESCAPE WOULD BE BY THE METHOD HE

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

DEVISED AND PUSHED LAST SUMMER. YAMANI ALSO BELIEVES THAT
A FUNDAMENTAL CHANGE IN THE INTERNATIONAL OIL INDUSTRY HAS NOW
BEEN ACHIEVED - WITH THE POSITION OF THE MAJORS NOW ONLY MARGINALLY
BETTER THAN THAT OF THE AMERICAN INDEPENDENTS AND THE EUROPEAN
AND JAPANESE COMPANIES, AND WITH PROFITS TO BE ACHIEVED DOWNSTREAM -
NOT IN PRODUCTION ALONE.

1. AS I HAD TOLD YAMANI I WOULD, I RAISED THE ABU DHABI PRICE
INCREASES WITH PRINCE FAHD (MINISTER OF THE INTERIOR) AND SULTAN
(MINISTER OF DEFENSE. BOTH WERE SURPRISED; BOTH SAID THEY HAD
UNDERSTOOD THE SAUDI PLAN AT ABU DHABI WAS TO REDUCE POSTED
PRICES AND INCREASE TAXES ONLY TO THE POINT OF GIVINE THE SAUDI
GOVERNMENT THE SAME INCOME IT NOW ENJOYS. BOTH ASKED WHAT I THOUGHT
COULD NOW BE DONE.

2. I SUGGESTED REPUDIATING THE AGREEMENT. THEY THOUGHT THIS
WOULD BE
DIFFICULT. THE ONLY WAY THEN SEEMED TO BE REDUCE THE SELLING PRICE
OF THE GOVERNMENT'S OIL - EITHER BY AUCTION OR BY DIRECT SALES.
I SUGGESTED THIS BE ANNOUNCED IMMEDIATELY AND ACHIEVED VERY SOON.

3. LATER TODAY I SAW YAMANI; TOLD HIM THAT SULTAN AND FAHD WERE
EMBARASSED AND ANNOYED WITH HIM; THEY AGREED WITH ME THAT THE KING
WOULD FEEL DECEIVED. YAMANI APPEARED UNCONCERNED. HE GAVE ME DATA
ON GOVERNMENT INCOME PER BARREL - BUT NOT A DETAILED ANALYSIS. (HIS
TWO TOP ACCOUNTANTS COULD NOT GET BACK TO RIYADH IN TIME, HE SAID).
HIS FIGURES SHOWED AN INCREASE IN GOVERNMENT TAKE OF 35 CENTS PER
AVERAGE BARREL PRODUCED - NOT THE 45 CENTS I HAD CALCULATED.
I SAID I WOULD ACCEPT HIS FIGURES BUT EVEN THIS WOULD GIVE SAUDI
ARABIA AN EXTRA BILLION DOLLARS A YEAR AT PRESENT PRODUCTION RATES.
BUT IN ANY CASE, THIS WAS BESIDE THE POINT; THE SAUDIS HAD SAID
GOVERNMENT
INCOME WOULD BE KEPT CONSTANT AND IT WAS INCREASED.

4. YAMANI SAID I SHOULD LOOK AT WHAT HE WOULD DO WITH THE
GOVERNMENT'S OIL. IT WOULD SOON ANNOUNCE SALES AT PRICES BELOW 93
CENTS PER BARREL; AND SAUDI ARABIA'S INCOME
PER BARREL PRODUCED WOULD NOT RPT NOT INCREASE; IN FACT, IT WOULD
PROBABLY BE DECREASED.
HE URGED THAT IF THIS IS DONE (HE SAID UNDER THE CIRCUMSTANCES
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HE WOULD MAKE NO PROMISES) THERE BE NO TRIUMPHANT SPEECHES IN THE
UNITED STATES ABOUT FINALLY "BREAKING" OIL PRICES OR "DESTROYING"
OPEC AS "HIGH AMERICAN OFFICIALS DID LAST SUMMER" WHEN HE WAS
TALKING ABOUT HIS OIL AUCTION.

5. YAMANI SAID THE EUROPEAN REACTION TO THE ABU DHABI CONFERENCE HAS
BEEN UNIFORMLY POSITIVE. THEY WILL BE PAYING LESS FOR THEIR OIL,
EITHER TO THE NATIONAL OPEC OIL COMPANIES OR TO THE AMERICAN MAJORS.

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

THE GERMAN MISSION JUST HERE, HE SAID, OFFERED TO PAY 94.5 PERCENT OF THE NEW POSTED PRICE FOR A LARGE QUANTITY OF OIL. "HOW FOOLISH THEY ARE," HE COMMENTED, AND SAID THEY WOULD BE ABLE TO GET IT FOR MUCH LESS.

6. I COMMENTED ONLY THAT THE WORLD - AND PARTICULARLY THE UNITED STATES - WOULD BE WAITING ANXIOUSLY TO SEE WHAT ACTUALLY HAPPENED WITH
HIS OIL SALES - THE QUANTITIES AS WELL AS THE PRICES.

7. YAMANI SAID THE MAIN PURPOSE IN THE ABU DHABI EXERCISE WAS NOT RPT NOT TO RAISE OR LOWER OIL PRICES (ALTHOUGH HE REPEATED THAT IT WAS STILL SAUDI POLICY TO REDUCE PRICES AND THAT THIS WOULD SOON BE DONE) BUT TO RECONSTITUTE THE INTERNATIONAL OIL INDUSTRY. HERE, HE SAID, HE AND THE SHAH AGREED. THE AMERICAN INDEPENDENT COMPANIES ALONG WITH THE EUROPEANS AND JAPANESE WOULD BENEFIT. THE PRESENT

CONCESSIONARY COMPANIES WOULD HAVE TO ADJUST AND MAKE THEIR PROFITS DOWNSTREAM. THE USG, HE SAID, SHOULD NOT RPT NOT OBJECT AS IT WOULD AT LAST BE ABLE TO TAX THE MAJOR OIL COMPANIES.

8. YAMANI SAID HE HOPED THE ARAMCO PARENTS WOULD AT LAST BE SHOCKED INTO PRESENT HIM WITH A PROPOSAL FOR A NEW RELATIONSHIP WHICH WOULD WORK. HE SAID THEY HAD GIVEN HIM A LETTER WHICH WAS "FULL OF LIES AND HALF-TRUTHS." HE SAID HE WAS AMAZED THAT THE COMPANIES WOULD BURDEN A LETTER, PURPORTING TO OFFER A NEW RELATION-SHIP, WITH SUCH POLEMICS. HE HAD TOLD JUNGERS, THE CHAIRMAN OF ARAMCO, THAT THE LETTER SHOULD BE WITHDRAWN AND A NEW ONE SENT. IF NOT, HE WOULD ANSWER THE EXISTING LETTER POINT BY POINT AND ARAMCO WOULD JUST HAVE TO LIVE WITH THE NEW SITUATION. HE SAID HE HAD ALMOST GIVEN UP HOPE OF WORKING OUT ANYTHING. HE LIKED AND TRUSTED JUNGERS; THOUGHT HE HAD GOOD IDEAS BUT WAS TOO WEAK TO GET THE PARENT COMPANIES TO ACCEPT HIS SUGGESTIONS.
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8. COMMENT AND RECOMMENDATION: THE PRICE INCREASE IS PROBABLY NOT AS MUCH AS I HAD THOUGHT BUT EVEN BY YAMANI'S ADMISSION IT IS AN INCREASE WHEN WE HAD BEEN ASSURED THERE WOULD BE NONE. YAMANI PROBABLY DOES INTEND TO HOLD HIS AUCTION OR SALE AT A PRICE LOWER THAN 93 PERCENT OF POSTINGS BUT WE CAN'T BE SURE IF THE HIGHER OIL COUNCIL WILL PERMIT HIM TO DO THIS. THE STRONGEST CARD IS OUR IMPLICATION THAT THIS MUST BE DONE TO SAVE SAUDI HONOR. I THEREFORE STILL STRONGLY URGE THAT THE PRESIDENT SEND KING FAISAL A NOTE ON OUR DISAPPOINTMENT WITH THE RESULTS OF ABU DHABI, AND THAT THE SECRETARY SPEAK WITH SAYYID OMAR SAQQAF ABOUT IT. THIS WOULD KEEP THE PRESSURE ON; IT COULD ASSURE A LOWER SALE PRICE AND (SILVER LINING DEPARTMENT), IT COULD EVEN RESULT IN A LOWER "TRUE" OR "MARKET PRICE" FOR OIL WHICH WOULD HAVE PERMANENT REPERCUSSIONS THROUGHOUT OPEC.

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